

## Iowa Tax

The quarterly newsletter of the Iowa Department of Revenue and Finance

## Department's website revamped; additional refinements planned

The Department's site on the World Wide Web has undergone a recent renovation, making it more attractive and useful for visitors. Further additions and refinement of existing pages will be ongoing. You can visit our website at:

[www.state.ia.us/government/dr/](http://www.state.ia.us/government/dr/)

The new site, which went online in July, includes a selection of downloadable Iowa tax forms, many of our most-requested publications and e-mail links to key Department personnel. Also available are the Department's Annual Report, this newsletter, current local option sales tax jurisdictions, electronic filing information, income tax Q & A, and clickable links to other useful sites on the web.

By the end of the year, the site

will include downloadable versions of many Iowa tax forms and instructions contained in the 1996 IA Package X. Plans also call for increased use of the web site for posting news stories and for publishing statistical reports, rules and regulations, tax law changes and other information for Iowa taxpayers and tax professionals.

### ***Fort Madison voters choose to reimpose local option sales tax***

Voters in the Lee County city of Fort Madison have reimposed the 1 percent local option sales tax, effective October 1, 1996. The local option tax – first imposed in Fort Madison in 1991 – would have otherwise expired as a result of a sunset clause.

## Local option sales tax imposed

Voters in the following 16 jurisdictions have adopted the local option sales tax effective October 1, 1996. The counties and county codes are listed in bold. To obtain a complete list of all current Iowa local option sales tax jurisdictions, call our toll-free Iowa tax forms number and request

form number 31-018.

**Floyd (34)** – Floyd, Marble Rock, Nora Springs, Rockford, Rudd

**Franklin (35)** – Hampton, Popejoy, Unincorporated Area

**Lyon (60)** – Alford, Doon, George, Inwood, Lester, Little Rock, Rock Rapids, Unincorporated Area

## DEPARTMENT SERVICES

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### ONLINE

#### *Internet Address (URL)*

[http://www.state.ia.us/  
government/drf/index.html](http://www.state.ia.us/government/drf/index.html)

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#### *E-mail*

[iadrf@iadrf.e-mail.com](mailto:iadrf@iadrf.e-mail.com)

### BY TELEPHONE

#### *Taxpayer Services*

from Des Moines  
or out of state,

(515) 281-3114

from elsewhere in Iowa or  
Rock Island-Moline or Omaha

1-800-367-3388

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#### *To Order Iowa Tax Forms*

(515) 281-7239 or  
1-800-532-1531

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#### *"Where's My Refund?"*

(515) 281-4966 or  
1-800-572-3944

### BY FAX

#### *Receive Iowa Tax Forms by Fax*

(515) 281-4139 or  
1-800-572-3943

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#### *Department Fax Number*

(515) 242-6040

### BY MODEM

#### *ERIN (electronic bulletin board)*

(515) 281-3248 or  
1-800-972-2028

## Grain bin dealers are often contractors

The Iowa Department of Revenue and Finance has been finding substantial errors in payment and collection of Iowa sales and use taxes by grain bin dealers.

Most dealers are in a dual-business situation. There are times when individuals will purchase the bins and will provide their own construction. Other times, the dealer will sell bins with the agreement of also erecting the structure.

In Iowa, dealers in a dual-business situation are called "retailer/contractors." Retailer/contractors purchase bins for resale and don't pay sales tax to their vendors or manufacturers.

When the retailer/contractor sells a bin *without* agreeing to erect the structure, the transaction is considered a sale of tangible personal property. The retailer/contractor must collect tax from the purchaser.

However, when the retailer/contractor sells a bin *with* an agreement to erect the struc-

ture, the transaction is considered a construction contract. As a party to a construction contract, the retailer/contractor becomes the "consumer" of all tangible personal property used to fulfill the contract.

In other words, when there is a construction contract, the retailer/contractor does not collect tax from the customer. Instead, the retailer/contractor must pay tax on the acquisition cost of the grain bins and all materials that will be used to fulfill the contract.

Since a retailer/contractor purchases the bins tax free, the tax due may be reported and paid in one of two ways: On line 2 of the Iowa sales tax return or on the Iowa consumer's use tax return. Tax is due in the quarter in which the materials were pulled from inventory.

If the dealer uses other materials to construct the bin, such as concrete for foundation, tax must be paid to the vendor at the time of purchase.

## Declaratory ruling issued by Director

Gross receipts from sales of otherwise ready-to-eat meat and cheese products removed from the retailer's premises before consumption are not taxable if the meat and cheese products are: 1) removed from their storage or display

area, 2) sliced as requested by the customer, 3) weighed, wrapped and labeled, 4) handed to the customer to be taken to the grocery store checkout area and, 5) not otherwise prepared by the retailer for immediate off-premises consumption.

## Type of coupon determines taxable amount

**H**ow you charge sales tax on items purchased with coupons depends on whether a manufacturer or retailer issues the coupons. If issued by a manufacturer, the amount of the coupon is part of taxable gross receipts. If issued by the retailer, the amount of the coupon is *excluded* from taxable gross receipts.

For example, a 30-cent coupon issued by the makers of Band-aids to purchase a \$1.50 box of Band-aids can be used at any store that sells Band-aids. The customer is actually paying \$1.20 plus a 30-cent coupon for the product. The makers of Band-aids will reimburse the store for the additional 30 cents. Tax is due on the entire \$1.50.

A Walgreen's 30-cent coupon to purchase a \$1.50 box of Band-aids can be used only at Walgreen's. Walgreen's will actually be selling the product for \$1.20; therefore, tax is due only on the \$1.20.

**Sales tax on coupon booklets**  
Many nonprofit organizations sell coupon booklets as fund-raisers. They should not collect sales tax on the price of the booklets. When a customer uses a coupon, the business should charge sales tax on the price paid for the item. For instance, if a hamburger is 99 cents and the customer can buy two for the price of one, the business charges sales tax on the amount of the sale, 99 cents.

## Not all sales to Iowa farmers are exempt

**I**owa retailers who make sales to farmers should be aware that not all goods and services qualify for the agricultural exemption from sales tax. To be exempt, the goods or services must be "directly and primarily" used in agricultural production. Some common items pur-

chased by farmers and mistakenly exempted by retailers include lawn tractors or mowers, garden tillers and home improvement materials. Call our toll-free forms line and request form 78-507, *Farmers Guide to Iowa Taxes* – or download the booklet from our website.

### Current Iowa Fuel Tax Rates

Gasoline	\$ .20 per gallon
Ethanol Blended Gasoline	\$ .19 per gallon
Aviation Gasoline	\$ .08 per gallon
Special Fuel (Diesel)	\$ .225 per gallon
Special Fuel (LPG)	\$ .20 per gallon
Special Fuel (Aviation)	\$ .03 per gallon
Compressed Natural Gas	\$ .16 per 100 cu. ft.

*From the*

## DIRECTOR'S DESK

The Department is currently studying several technology-related initiatives aimed at reducing costs and duplication of services.

Many Iowa tax professionals will soon receive surveys asking for their input in determining the feasibility of two of these projects. One involves producing our IA Package X on CD-ROM. We are questioning the cost-effectiveness of compiling, printing and mailing the paper version of the Package X – particularly



*Director Gerald D. Bair*

when we are unsure how it is being used. Producing the Package X on CD-ROM would reduce our costs without sacrificing the quality of the service we intend to provide. Please fill out the survey and return it with your comments and suggestions.

The second initiative under consideration involves moving the information from our ERIN bulletin board system to our site on the World Wide Web. ERIN would be discontinued under this initiative. Again, please complete the survey you receive so we can consider your ideas before reaching a decision.

## **Iowa cow-calf operations may qualify for tax refund**

Corporate and individual income taxpayers involved in cow-calf operations in Iowa during 1996 may qualify for a new credit. Potential refund amounts are based upon the number of "corn equivalents" consumed by the livestock. The refund per operation or taxpayer is up to \$3,000 annually. To qualify, the corporation or taxpayer must have a total net worth in 1996 of less than \$1 million. Also, more than half of the taxpayer's gross income must be from farming or ranching.

The claim must be filed on Iowa form 132 within 10 months of the end of the tax year and filed with the taxpayer's 1996 income tax return.

A total of \$2 million is to be distributed as livestock production credit refunds for 1996 returns. If the claimed amounts exceed that total, refunds will be prorated.

In 1997, the livestock production refund is scheduled to be expanded to include sheep, hog and poultry operations, as well as stocker, feedlot and dairy cattle operations.

## **Avoid the 'Box 1/Box 17' error on IA 1040**

Last year the Iowa Department of Revenue and Finance saw a high number of errors on returns filed by state, city, and school district employees, peace/police officers, and fire fighters who contribute to their government-sponsored pension plans. Of these 145,000 returns, almost one-fourth were incorrect. This caused these taxpayers' refunds to be delayed.

Contributions to these types of pension plans are pretaxed for Federal purposes but not for State tax purposes. This means that the amount of income to report on the Federal return is lower than the amount on the State return.

On the Federal return, report the wages shown in Box 1 of the W-2. On the Iowa return, report the wages shown in Box 17 of the W-2.

## **Certain S-corp shareholders eligible for refund**

Iowa resident shareholders of "value-added corporations" doing business within and without Iowa may be eligible for a refund based upon the ratio of the greater of the portion of S-corporation income attributable to Iowa sources or the portion of any distributions made from income upon which Iowa income tax has not been paid. Legislative action limits

the total refunds to be given to \$5 million in 1996.

A "value-added corporation" is involved in manufacturing, construction, processing or combining different materials.

When 1996 Iowa income tax forms become available, potential recipients of the refund may call the Department at 1-800-532-1531 and order form IA 134.

## **Administrative levy is newest debt collection tool**

An additional tool to collect state debts is available to the Iowa Departments of Revenue and Finance and Human Services. The "administrative levy" allows them to go directly to the financial institutions to levy (garnishee) accounts. Among debts to be collected are child support, taxes and court debt.

Iowa parents owe more than \$650 million in back child support. Unpaid taxes total about \$72 million, and current court debt stands at approxi-

mately \$38 million.

The administrative levy is one of the last resorts to be used by state agencies to collect debts. Tax debts, for instance, are generally four months into the collection cycle before garnishing is considered, and court debt is transferred only after administrative rights have been exhausted. The Department of Human Services may use the administrative levy process when a debtor has a child support delinquency equal to a one-month support payment.

# IOWA LOCAL OPTION SALES TAX

Jurisdiction codes effective for the quarter beginning October 1, 1996

• • • *All jurisdictions listed below have imposed the local option tax at a rate of 1 percent* • • •

COUNTY / CODE	JURISDICTIONS	EFFECTIVE	COUNTY / CODE	JURISDICTIONS	EFFECTIVE
ALLAMAKEE / 03	Harpers Ferry, Postville, Waterville	1-1-95	IOWA / 48	Ladora, North English, Parnell, Williamsburg	4-1-94
	Waukon	1-1-96		Marengo, Millersburg, Victor, Unincorporated Area	4-1-95
	Lansing, New Albin	7-1-96	JACKSON / 49	Baldwin, La Motte, Miles, Preston, Sabula, Saint Donatus, Spragueville, Springbrook, Bellevue, Zwingle	10-1-89
BLACK HAWK / 07	Cedar Falls, Elk Run Heights, Evansdale, Hudson, Raymond, Waterloo	4-1-91		Maquoketa, Monmouth	4-1-91
	Dunkerton, Gilbertville, Janesville, La Porte City, Unincorporated Area	10-1-91		Andrew, Unincorporated Area	10-1-94
BOONE / 08	Berkley, Luther, Pilot Mound	4-1-89		Andrew, Unincorporated Area	1-1-95
	Boone	7-1-90	JONES / 53	Cascade, Center Junction, Morley, Olin, Onslow, Oxford Junction	4-1-95
	Boxholm, Ogden, Sheldahl, Unincorporated Area	1-1-91		Monticello, Wyoming	1-1-96
	Madrid	7-1-91	LEE / 56	Fort Madison, Franklin, Keokuk, Montrose	10-1-91
	Fraser	1-1-92		St. Paul	1-1-93
	Beaver	1-1-95		Donnellson, Houghton, West Point, Unincorporated Area	1-1-95
BUCHANAN / 10	Aurora, Lamont, Stanley	10-1-95	LINN / 57	Bertram	1-1-86
BUENA VISTA / 11	Albert City, Linn Grove, Marathon, Newell, Sioux Rapids, Truesdale,	7-1-91	LYON / 60	Alvord, Doon, George, Inwood, Lester, Little Rock, Rock Rapids, Unincorporated Area	10-1-96
	Alta, Lakeside, Rembrandt, Storm Lake, Unincorporated Area	10-1-95	MAHASKA / 62	Barnes City, Beacon, Fremont, Keomah Village, Leighton, New Sharon, Oskaloosa, Rose Hill, University Park, Unincorporated Area	4-1-95
CERRO GORDO / 17	Clear Lake, Dougherty, Mason City, Meservey, Plymouth, Rock Falls, Rockwell, Swaledale, Thornton, Ventura	7-1-92		Eddyville	10-1-95
	Unincorporated Area	1-1-93	MILLS / 65	Emerson, Henderson, Malvern, Tabor	1-1-96
CHEROKEE / 18	Aurelia, Cleghorn, Larrabee, Marcus, Meriden, Washta	7-1-96	MITCHELL / 66	Carpenter, Mitchell, Orchard, Osage, Riceville, St. Ansgar, Stacyville	1-1-95
CLAYTON / 22	McGregor	1-1-90		McIntire, Unincorporated Area	7-1-95
	Elkader, Garnavillo, Luana, Millville, Marquette, Saint Olaf	4-1-94	MONONA / 67	Blencoe, Castana, Mapleton, Moorhead, Onawa, Rodney, Soldier, Turin, Ute, Whiting, Unincorporated Area	7-1-90
	Elkport, Farmersburg, Garber, Guttenberg, Littleport, Monona, Volga	10-1-94	MONTGOMERY / 69	Coburg, Elliott, Stanton, Villisca	1-1-96
	Edgewood, North Buena Vista, Strawberry Point, Unincorporated Area	10-1-95		Grant	4-1-96
CLINTON / 23	Andover, Calamus, Camanche, Clinton, Delmar, De Witt, Goose Lake, Grand Mound, Low Moor, Toronto, Welton, Wheatland,	10-1-89	Muscatine / 70	Atalissa, Conesville, Fruitland, Muscatine, Stockton, Wilton	7-1-94
	Charlotte, Lost Nation, Unincorporated Area	1-1-90		Nichols, Unincorporated Area	1-1-95
DELAWARE / 28	Colesburg, Delaware, Delhi, Earlville, Greeley, Manchester, Masonville,	10-1-94		Durant, West Liberty	7-1-95
	Dundee, Dyersville, Hopkinton, Ryan, Unincorporated Area	4-1-95	O'BRIEN / 71	Archer, Calumet, Paullina, Primghar, Sanborn, Sheldon, Sutherland, Unincorporated Area	1-1-96
	Edgewood	4-1-96	PAGE / 73	Blanchard, Braddyville, Coin, College Springs, Essex, Shambaugh, Shenandoah, Yorktown	1-1-96
DES MOINES / 29	Burlington, Danville, Middletown, West Burlington	10-1-94		Clarinda, Hepburn, Northboro, Unincorporated Area	7-1-96
	Mediapolis, Unincorporated Area	4-1-95	POLK / 77	Polk City	1-1-86
DUBUQUE / 31	Asbury, Balltown, Centralia, Dubuque,	4-1-88		Sheldahl	7-1-87
	Holy Cross, Sageville, Zwingle		POTTAWATTAMIE / 78	Macedonia, Minden	1-1-89
	Bankston, Bernard, Epworth, Farley, Graf, Peosta, Sherrill, Unincorporated Area	7-1-88		Council Bluffs	4-1-90
	Cascade, Dyersville, Luxemburg, New Vienna, Rickardsville, Worthington	10-1-89		Avoca, Carson, Carter Lake, Crescent, Hancock, McClelland, Neola, Oakland, Treynor, Underwood, Walnut	1-1-95
FAYETTE / 33	Arlington, Clermont, Elgin, Hawkeye, Maynard, Oelwein, Randalia, St. Lucas, Wadena, Waucoma, Westgate	1-1-95		Unincorporated Area	4-1-95
	Fayette, West Union, Unincorporated Area	7-1-95	SCOTT / 82	Bettendorf, Blue Grass, Buffalo, Davenport, Dixon, Donahue, Eldridge, LeClaire, Long Grove, Maysville, McCausland, New Liberty, Panorama Park, Princeton, Walcott, Riverdale, Unincorporated Area	1-1-89
FLOYD / 34	Floyd, Marble Rock, Nora Springs, Rockford, Rudd	10-1-96	SIoux / 84	Alton, Boyden, Chatsworth, Granville, Hawarden, Hull, Ireton, Matlock, Maurice, Orange City, Sioux Center, Unincorporated Area	10-1-95
FRANKLIN / 35	Coulter, Dows, Geneva, Hansell, Latimer, Sheffield	10-1-95		Hospers, Rock Valley, Sheldon	7-1-96
	Hampton, Popejoy, Unincorporated Area	10-1-96	STORY / 85	Ames, Huxley	1-1-87
FREMONT / 36	Farragut, Hamburg, Imogene, Randolph, Riverton, Shenandoah, Sidney, Tabor, Thurman, Unincorporated Area	1-1-96		Cambridge, Collins, Colo, Gilbert, Kelley, McCallsburg, Roland, Sheldahl, Slater, Unincorporated Area	7-1-87
HANCOCK / 41	Corwith, Crystal Lake, Garner, Goodell, Kanawha, Klemme, Woden	1-1-96		Nevada, Maxwell, Zearing	1-1-89
HARDIN / 42	Alden, Buckeye, Eldora, Hubbard, Iowa Falls, Radcliffe, Steamboat Rock, Unincorporated Area	4-1-96		Story City	10-1-90
HENRY / 44	Coppock, Hillsboro, Mount Pleasant, Mount Union, New London, Olds, Rome, Salem, Westwood, Winfield	10-1-95	WINNESHEK / 96	Decorah	4-1-91
	Wayland, Unincorporated Area	1-1-96		Calmar, Castalia, Fort Atkinson, Jackson Junction, Ossian, Ridgeway, Spillville, Unincorporated Area	7-1-91
HOWARD / 45	Chester, Cresco, Lime Springs, Protivin	1-1-94	WOODBURY / 97	Bronson, Cushing, Merville, Oto, Salix, Sergeant Bluff, Sioux City, Sloan	1-1-87
	Elma, Unincorporated Area	7-1-94		Anthon, Correctionville, Danbury, Hornick, Lawton, Pierson, Smithland, Unincorporated Area	10-1-88
	Riceville	1-1-95			